



California's Budget Dilemma

May 20, 2009



How Legislature and Governor Solved the \$42 Billion Problem in February

(includes vetoes)

\$15.4 billion in expenditure reductions—37%

\$12.5 billion in taxes—30%

\$ 8.5 billion in fed. econ. stimulus funds—20%

\$ 5.3 billion in borrowing—13%

\$41.7 billion (100%)

Includes \$2.1 billion reserve.



What's Happened Since the February Budget Deal?

**Budget already in place for 2009–10...
but work will need to be done to address**

Deficit is bigger by \$15.4 billion:

\$12.4 billion shortfall in revenues and

\$3 billion unanticipated increase in costs.

**Measures defeated in election, resulting in
\$5.8 billion budget hole.**

Total problem to solve: \$21.3 billion.



How Does Governor Propose to Close \$21 billion Budget Gap in the May Revision?

\$9.8 billion in new spending cuts.

\$7.5 billion in new borrowing.

\$2.8 billion in revenues from accelerated tax collections, fees, and funding shifts.

\$1 billion from sale of State Compensation Insurance Fund (SCIF).

\$200 million in other solutions.

Total: \$21.3 billion.



What Are the Governor's Key Program Cuts (\$9.8 billion)?

\$5.3 billion to Prop. 98 (K-14 education)

\$2.7 billion to K-12 revenue limits.

\$700 million to Community Colleges.

\$1.8 billion in deferrals to K-12 and CCC.

\$2.7 billion to Health and Human Services

\$750 million to Medi-Cal (requires federal action).

Previously-proposed cuts to IHSS, CalWORKs, Developmental Services, and Immigrant programs.

New cuts to Healthy Families, Foster Care, Children's Services, Public Health, IHSS.

\$1.2 billion to UC and CSU

\$282 million in Corrections (on top of \$400 million from February package)



What Are the Governor's Key Borrowing Proposals (\$7.5 billion)?

\$5.5 billion in Revenue Anticipation Warrants (RAWs).

\$2 billion from suspension of Proposition 1A
(local government property tax).

**(NOTE: May Revision does not propose to suspend
Proposition 42 transportation funding.)**



What Are the Governor's Key Revenue Proposals (\$2.8 billion)?

No new general tax increases.

\$1.7 billion increasing income tax withholding by 10 percent.

\$610 million by accelerating estimated tax payments for individuals and corporations.

\$336 million from gasoline tax “spillover” revenues that would otherwise go to public transit.

\$76 million from an “Emergency Response Initiative”—fees imposed on property insurance—to pay for fire and emergency services.

\$43 million in other fees.



What Are the Governor's Other Proposals (\$1.2 billion)?

\$1 billion from the sale of a portion of the State Compensation Insurance Fund (SCIF).

\$100 million from oil leases at Tranquillon Ridge (off the Santa Barbara coast).

\$50 million from elimination and consolidation of various state boards, commissions, and departments.

Sale or lease of various major state properties (San Quentin prison, L.A. Coliseum, Cow Palace, Cal Expo, Del Mar Fairgrounds, etc.)—but budget assumes no revenues until future years.



Some Key Considerations

Several major risks in Governor's May Revision proposals:

Sale of \$5.5 billion in RAWs (Will the market buy them?).

Sale of SCIF for \$1 billion (Is such a sale advisable?
Is it worth \$1 billion?).

\$750 million in Medi-Cal cuts (Will federal government
provide necessary waivers and flexibilities to achieve the
cuts?).

**Although some proposals require only a majority vote,
many of the key proposals still require a 2/3 vote.**



Some Key Considerations (cont.)

More than half of the Governor's proposals are "one-time" solutions," and many require pay-back.

Thus, we will likely continue to have budget difficulties in the out-years.

Major alternatives to the Governor's proposal are all difficult:

Tax increases: Most require a 2/3 vote (unlikely). Some require only majority vote, but maximum revenue is only about \$6 billion, and Governor's signature still required.

More borrowing: Exacerbates the out-year problems.

More or alternative cuts: Hard to find.



Some Key Considerations (cont.)

Major cash shortfall on the horizon this summer, too:

LAO estimates that state will need \$23 billion in short-term cash flow to pay its bills.

Budget solutions will help address cash shortage, too.

Time is of the essence:

Solutions lose value as time passes.

Need to address cash issues **very soon**.